

Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

3 FOR 85

U.S. AGRICULTURAL TRADE AND BALANCE OF PAYMENTS WITH OECD COUNTRIES

by

McGehee H. Spears

LIBRARY READING: 544.

JUN 13 1972

510 12th St., SW, Room 300
Washington, D. C. 20250

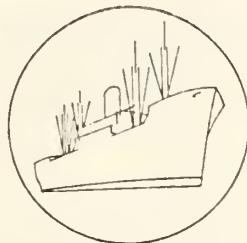
Reprinted from
FOREIGN AGRICULTURAL TRADE
OF THE
UNITED STATES
April 1964

Development and Trade Analysis Division
Economic Research Service
U.S. Department of Agriculture

3-foreign 5

May 1964





SPECIAL in this issue

U.S. AGRICULTURAL TRADE AND BALANCE OF PAYMENTS WITH OECD COUNTRIES

by

McGehee H. Spears 1/

The Organization for Economic Cooperation and Development (OECD) is comprised of the 6 member countries of the European Economic Community (EEC); the 7 member countries of the European Free Trade Association (EFTA); 7 other member countries including Canada and the United States; and 3 special status countries -- Finland, Japan, and Yugoslavia. 2/ These countries, as a group, represent the most important overseas markets for U.S. agricultural products and nonagricultural goods. In recent years markets in these countries took more than half the total value of this Nation's exports of both agricultural and nonagricultural goods. While agricultural exports to OECD countries represented about 15 percent of total U.S. merchandise exports (\$20.5 billion in 1962), the absence of any comparable magnitude of agricultural imports from these countries results in a most favorable U.S. agricultural trade balance with the area. In each of the years 1960, 1961 and 1962, net earnings on agricultural trade with OECD countries totaled around \$2.0 billion and represented two-thirds of total net earnings from all merchandise trade with this group of countries. The importance of the OECD markets for U.S. agricultural products emphasizes the need for continued access to these markets as one means of improving the U.S. balance of payments. The OECD, as an organizational unit, is an important forum where trade and payments problems can be discussed and corrective policies coordinated among the world's leading trading nations.

The Make-Up and Purpose of OECD

The OECD was officially established on September 30, 1961. It succeeded the Organization for European Economic Cooperation (OEEC) which had been formed in 1948 for the purpose of administering Marshall Plan aid and coordinating European recovery.

1/ Assistant Chief, International Monetary Branch, Development and Trade Analysis Division, ERS.

2/ Finland may have an observer at meetings on maritime transport, timber, pulp and paper, industry and machinery discussions. The Council of OPEC voted unanimously in July 1963 to invite Japan to full membership; at this time Japan's admission as a full member is not effective. Japan as a member of the Organization for Economic Cooperation and Development contributed over its membership to the OECD's Development Assistance Committee when the latter was established in 1961. In this paper trade data for Japan are shown but are not discussed in the context of overall United States trade and balance of payments trends with OECD countries. Yugoslavia is a member of certain OECD committee discussions and has observer status in other activities.



In addition, the forum continues to be an important forum for international consultations and cooperation among the industrialized countries of Western Europe, Japan, and North America. While Canada and the United States were associate members of OECD, they are full members of OECD.

The forum seeks: Cooperation among countries with respect to common objectives of economic growth; cooperation in, and coordination of, financial and monetary policies; cooperative extension of economic assistance to developing nations; and the examination of specialized topics in agriculture, science, technology and productivity; and other economic activities. 3/

Numerous activities are in progress. For example, Economic Policy Committee, with 2 working parties, directs its efforts towards policies for promoting economic growth and balance of payments equilibrium. The Development Assistance Committee coordinates economic assistance to developing nations. The Economic Development and Review Committee annually reviews economic conditions in member and special status countries. U.S. participation is based on the recognition that coordinated actions designed to invigorate economic growth and improve payments relationships among countries are dependent upon understanding and cooperation among OECD countries, and between these countries and the developing nations.

The OECD countries may be classified broadly into two groups -- member and special status countries. They may also be classified according to their status as members and associate members of the EEC, EFTA, and as countries not associated with either of these regional organizations. Present OECD countries, grouped according to member affiliation with the EEC and EFTA and associated or independent of these regional organizations, are shown in table 1.

EFTA was established in 1960 as a free trade association committed to coordinating trade policies and gradually eliminating restrictions on trade between member countries by December 31, 1966. As of January 1, 1964, tariffs on industrial goods traded between member countries were 60 percent below 1960 levels.

The EEC is a customs and economic union established by the Treaty of Rome in 1957. It is committed also to dismantling tariffs and restrictions on intra-community trade. During the first EEC transitional period completed on December 31, 1961, initial steps were taken to merge the industrial sectors of the member countries and to reduce internal tariffs and abolish quota restrictions on the intra-trade of industrial goods. Decisions on merging agricultural policies and resolving agricultural trade issues were deferred during the first transition phase. Agriculture is presently under a Common Agricultural Policy instituted at the start of the second phase. By the end of 1967 two years ahead of the original date, tariffs and other restrictions on intra-community trade are to be eliminated.

3/ For an extensive discussion of OECD aims and organization structure see the OECD Handbook, 1963.

Table 1.—U.S. agricultural exports to Organization for Economic Cooperation and Development countries: Value by country, average 1957-59, annual 1960-62 and January-June 1963 1/

| Item | 1957-59 average | 1960 | 1961 | 1962 | January - June 1963 |
|---------------------------------|--------------------|-------|-------|-------|---------------------------|
| -- Million U.S. dollars -- | | | | | |
| <u>OECD countries 2/</u> | | | | | |
| European Economic Community | | | | | |
| Belgium 3/..... | 123 | 137 | 120 | 132 | 145 |
| France..... | 78 | 128 | 112 | 86 | 102 |
| Germany..... | 334 | 355 | 371 | 391 | 389 |
| Italy..... | 157 | 159 | 236 | 176 | 181 |
| Netherlands..... | 254 | 320 | 310 | 365 | 351 |
| Total..... | 917 | 1,099 | 1,157 | 1,151 | 1,053 |
| European Free Trade Assn. | | | | | |
| Austria..... | 24 | 25 | 20 | 23 | 24 |
| Denmark..... | 48 | 55 | 49 | 64 | 31 |
| Norway..... | 28 | 33 | 31 | 39 | 22 |
| Portugal..... | 12 | 15 | 20 | 24 | 10 |
| Sweden..... | 43 | 46 | 48 | 47 | 13 |
| Switzerland..... | 45 | 54 | 63 | 62 | 22 |
| United Kingdom..... | 115 | 510 | 431 | 408 | 141 |
| Total..... | 645 | 736 | 662 | 663 | 251 |
| Other OECD countries | | | | | |
| Canada..... | 361 | 432 | 491 | 512 | 262 |
| Finland 4/..... | 10 | 13 | 15 | 16 | 10 |
| Greece 6/..... | 29 | 16 | 34 | 18 | 16 |
| Iceland..... | 3 | 3 | 3 | 3 | 3 |
| Ireland..... | 15 | 20 | 22 | 36 | 10 |
| Spain..... | 111 | 113 | 154 | 98 | 81 |
| Turkey..... | 50 | 36 | 70 | 81 | 35 |
| Yugoslavia 5/..... | 108 | 34 | 86 | 86 | 102 |
| Total..... | 687 | 667 | 875 | 850 | 516 |
| <u>Total OECD countries 2/</u> | 2,279 | 2,503 | 2,694 | 2,667 | 1,277 |
| Japan 5/..... | 383 | 485 | 554 | 481 | 283 |
| Other..... | 1,441 | 1,836 | 1,782 | 1,883 | 1,051 |
| Total agricultural exports..... | 4,103 | 4,824 | 5,030 | 5,031 | 2,618 |

1/ The United States is a member of OECD.

2/ Excludes Japan.

3/ Belgium-Luxembourg Economic Union.

4/ Associate member of EFTA since 1961.

5/ OECD special status country.

6/ Associate of EEC since 1962.

Dollars may not always add to totals due to rounding.

Source: Foreign Agricultural Trade of the United States. ERS, November-December 1963.



and was adopted by EEC member countries in January 1962 on the first day of the year. Common agricultural policy for agricultural products. On May 30, 1962, the first community-wide regulations were issued for the following agricultural commodities: Wheat, feed grains, flour, poultry and eggs, fruits and vegetables, live hogs, whole hog carcasses, and wine. In December 1963, agreement was reached on the basic elements of instituting EEC common agricultural policies for rice, beef and veal, dairy products and vegetable oils and oilseeds; detailed regulations putting these policies into effect have not been issued but in the process of establishing such regulations questions of pricing, production, marketing and trade between EEC countries and with third countries must be resolved. ⁴⁷

Unlike the EEC where common external tariffs and levies are being established against third country suppliers, the EFTA member countries each retain their respective external tariffs and levies on imports from nonmember countries. Although no EFTA prohibitions on agricultural imports from nonmember suppliers have been developed in common, special arrangements have been made for certain agricultural products of member countries to be treated as industrial goods; thus these specific agricultural products benefit from general tariff cuts. These arrangements are made to facilitate overall trade objectives among EFTA countries and for the benefit of those EFTA countries heavily dependent upon exporting agricultural products to other member countries.

U.S. Agricultural Exports to OECD Countries

The member and special status countries of OECD are, as a group, the major market for exports of U.S. agricultural products (see table 1). Agricultural exports to these countries, excluding Japan, averaged \$2.3 billion annually from 1957 through 1959. They totaled \$2.5 billion in 1960, and over \$2.6 billion in both 1961 and 1962. These exports to OECD countries represented over one-half of all U.S. agricultural exports entering world trade in these respective years.

This group of countries represents the major overseas commercial markets for U.S. agricultural products. Except for agricultural exports to Austria, Greece, Turkey, and Yugoslavia, most exports to each OECD country were sold for dollars and moved outside U.S. Government-financed export programs such as P.L. 480. In 1962, agricultural exports to several OECD countries financed under U.S. Government export programs were mostly donated or bartered while exports sold for foreign currencies under P.L. 480 were confined almost exclusively to 3 countries -- Greece, Turkey, and Yugoslavia. Shipments under specified U.S. Government export programs to OECD countries as a group were less than \$300 million in 1962 compared to commercial sales of over \$2.4 billion.

The EEC member countries as a group imported U.S. agricultural products valued at \$1.2 billion in 1962. This was about 20 percent above what they imported 5 years ago, but \$6 million less than in 1961. January-June imports totaled \$503 million in 1963 compared with \$585 million in 1962.

⁴⁷ Stuart Lipton, "The EEC Rounds Out Its Common Agricultural Policies" Foreign Agriculture, FAS, March 2, 1964, pp. 3-5, and Irwin R. Hedges, The European Common Market and U.S. Agriculture, FAS, December 1962.



The EFTA member countries, as a group, imported \$860 million of U.S. agricultural products in 1962. The United Kingdom imports over 50 percent of all agricultural products exported to the EFTA group and is the third leading market for U.S. agricultural exports. The remaining 6 OECD countries, excluding Japan, imported \$850 million -- the principal markets being Canada, Spain, Turkey and Yugoslavia. Exports to the latter 2 countries were sold primarily under Title I, P.L. 480 in exchange for foreign currencies. Canada, in 1962, was the largest importer of U.S. agricultural products (\$512 million). Exports to Japan totaled \$481 million in 1962 compared with \$554 million in 1961; Japan was the second largest recipient of U.S. agricultural products in 1962. ^{5/}

On July 30, 1962, the EEC imposed a common external tariff (the variable import levies) against imports of certain agricultural products. Since then, exports of U.S. agricultural products subject to these levies declined \$115 million, or 25 percent, in fiscal year 1963 compared to similar exports in the previous year. These levies, though not effective during fiscal 1962, were effective for almost all of fiscal 1963. U.S. agricultural exports to EEC member countries as a group and not subject to variable levies totaled \$715 million and \$775 million in these respective years. ^{6/}

The significance of the OECD markets for U.S. agricultural products lies in the favorable impact such exports have on the U.S. trade balance. While the U.S. merchandise trade balance with OECD countries as a group is traditionally in surplus (over \$3 billion in each of the years 1960, 1961, and 1962), the agricultural trade surplus was a most important part of this record of net trade earnings. In 1962, agricultural trade surplus with OECD countries accounted for almost two-thirds of the \$3 billion merchandise trade surplus with these countries. Net earnings from U.S. agricultural trade are one of the major factors in improving the U.S. balance of payments with the OECD countries as well as in other areas.

In 1961, the balance on merchandise trade with all areas, including net earnings on agricultural trade, reached a record high of \$5.4 billion compared with \$4.7 billion in 1960 and \$4.3 billion in 1962 (table 2). The balance was \$2.5 billion for the first half of 1963. Net receipts on merchandise trade with the OECD countries were mainly responsible for these record net trade earnings in 1957 through the first half of 1963. Net receipts from U.S. agricultural trade with OECD countries totaled \$2 billion in 1961 and 1962, respectively, or almost a third of a billion dollars more than average net receipts for the period 1957 through 1959. Although U.S. nonagricultural trade with OECD countries far surpasses in magnitude the value of agricultural trade with these countries, net earnings on nonagricultural trade were particularly low during 1957-59, averaging \$0.7 billion. But, in each of the years 1960, 1961 and 1962, net earnings averaged over \$1.3 billion. Net receipts on nonagricultur-

^{5/} Alex D. Angelidis and Dewain H. Paine, "Regional Distribution of Exports." Foreign Agricultural Trade of the United States, ERS, November-December 1963.

^{6/} Dewain H. Paine, "U.S. Agricultural Exports Up to Asia and Latin America but Down Elsewhere in 1962-63," Foreign Agricultural Trade of the United States, ERS, January 1964.



Table 7.—U.S. merchandise trade balance: Value by area, average 1957-59,
annual 1960-62, and January-June 1963 ^{1/}

| Item | 1957-59 average | 1960 | 1961 | 1962 | January-June 1963 |
|--------------------------------|--------------------|-------|-------|-------|----------------------|
| -- Million U.S. dollars -- | | | | | |
| <i>All areas</i> | | | | | |
| Merchandise trade balance..... | 3,461 | 4,735 | 5,416 | 4,334 | 2,452 |
| Agricultural trade, net..... | 135 | 999 | 1,340 | 1,155 | 699 |
| Nonagricultural trade, net.... | 3,326 | 3,736 | 4,076 | 3,179 | 1,783 |
| <i>OECD countries</i> | | | | | |
| Merchandise trade balance..... | 2,367 | 3,391 | 3,390 | 3,013 | 1,753 |
| Agricultural trade, net..... | 1,634 | 1,863 | 2,014 | 1,969 | 951 |
| Nonagricultural trade, net.... | 733 | 1,528 | 1,376 | 1,044 | 802 |
| <i>Rest of world</i> | | | | | |
| Merchandise trade balance..... | 1,094 | 1,344 | 2,026 | 1,321 | 731 |
| Agricultural trade, net..... | -1,499 | -864 | -676 | -814 | -252 |
| Nonagricultural trade, net.... | 2,593 | 2,208 | 2,700 | 2,135 | 983 |

^{1/} Excludes military grant aid.

Details may not always add to totals due to rounding.

Sources: Foreign Agricultural Trade of the United States. ERS, November-December 1963. Balance of Payments Statistical Supplement to the Survey of Current Business (Revised Edition), 1963. Survey of Current Business. U.S. Department of Commerce. June, September and December 1963.

Trade with the rest of the world averaged over \$2.4 billion during the period 1957 through 1962. Net receipts on nonagricultural trade or those net earnings on agricultural trade with OECD countries were more than adequate to cover agricultural trade deficits with the rest of the world over the same period.

U.S. Balance of Payments with OECD Countries

The U.S. balance on recorded transactions with the OECD member and special status countries, excluding Japan, improved markedly in 1962 and was in surplus by \$1.3 billion compared to a surplus of \$719 million in 1961. The recorded balance was in deficit by \$863 million in 1960 and averaged this same amount for the period 1957-59 (table 3). In 1962, the reduction in U.S. monetary reserve assets and the increase in liquid liabilities to OECD countries totaled \$739 million; this was an improvement over the \$2.2 billion in 1961; \$2.6 billion in 1960, and an annual average of \$2.1 billion for the 1957-59 period. For the first time in a decade, in 1962, U.S. short-term dollar liabilities to OECD countries did not increase but diminished by \$195 million: a decline in dollar liabilities to the European OECD countries of \$717 million was offset by a rise in dollar liabilities to Canada of \$522 million. The largest annual increase in such dollar liabilities occurred in 1959 and 1961,



Table 2.--U.S. balance of payments: OECD countries and all areas, average 1957-59, annual 1960-62, and January-September 1963 1/

| Item | 1957-59 | 1960 | 1961 | 1962 | January-September 1963 |
|--|---------|---------|---------|---------|---------------------------|
| | average | | | | |
| -- Million dollars -- | | | | | |
| OECD countries 2/: | | | | | |
| Receipts, total..... | 12,945 | 14,561 | 15,911 | 17,314 | 12,651 |
| Exports of goods and services..... | 12,175 | 14,323 | 14,561 | 15,552 | 11,212 |
| Repayments on U.S. Government loans..... | 390 | 297 | 915 | 893 | 343 |
| Foreign long-term investments in U.S., net..... | 375 | 221 | 447 | 3,894 | 3,274 |
| Payments, total..... | -13,800 | -15,404 | -15,172 | -16,662 | -13,541 |
| Imports of goods and services..... | 11,315 | 12,339 | 12,252 | 13,451 | 10,787 |
| Private remittances, pensions, other transfers, net..... | 357 | 265 | 27 | 291 | 213 |
| U.S. private capital, net..... | 1,413 | 2,366 | 2,171 | 1,892 | 2,051 |
| U.S. Government capital and economic grants, net..... | 664 | 343 | 421 | 440 | 395 |
| Balance on recorded transactions..... | -743 | -763 | 71 | 1,242 | -514 |
| Errors and omissions and transfers of funds between foreign areas, receipts by area (-).... | -1,206 | -1,756 | -2,959 | -2,621 | -1,151 |
| Reduction in monetary reserve assets and increase in liquid liabilities..... | -2,068 | -2,619 | -2,190 | -739 | -1,674 |
| Decrease (-) in U.S. monetary assets..... | -1,127 | -1,710 | -630 | -934 | -338 |
| Increase (+) in liquid liabilities..... | -1,041 | -911 | -1,554 | 197 | -659 |
| Increase (+) in foreign holdings of special U.S. Government securities 4/..... | --- | --- | --- | --- | -677 |
| All areas | | | | | |
| Receipts, total..... | 25,550 | 27,976 | 30,313 | 32,023 | 23,945 |
| Exports of goods and services..... | 24,341 | 26,974 | 27,311 | 29,775 | 22,771 |
| Repayments on U.S. Government loans..... | 752 | 636 | 1,274 | 1,283 | 721 |
| Foreign long-term investments in U.S., net..... | 457 | 366 | 728 | 3,1,021 | 3,351 |
| Payments, total..... | -28,478 | -31,174 | -31,778 | -33,264 | -26,350 |
| Imports of goods and services..... | 21,632 | 23,205 | 22,557 | 24,764 | 17,102 |
| Private remittances, pensions, other transfers, net..... | 738 | 672 | 705 | 736 | 577 |
| U.S. private capital, net..... | 2,963 | 3,892 | 4,150 | 3,273 | 2,974 |
| U.S. Government capital and economic grants, net..... | 3,135 | 3,405 | 4,056 | 4,283 | 3,343 |
| Balance on recorded transactions..... | -2,936 | -3,190 | -3,165 | -1,142 | -2,341 |
| Errors and omissions, net..... | 676 | 563 | 702 | 1,025 | 1 |
| Overall balance: Reduction in monetary reserve assets and increase in liquid liabilities..... | -2,252 | -3,481 | -2,370 | -2,156 | -2,455 |
| Decrease (-) in U.S. monetary assets..... | -735 | -2,443 | -606 | -1,533 | -32 |
| Increase (+) in liquid liabilities..... | -1,175 | -1,458 | -1,101 | -53 | -1,346 |
| Increase (+) in foreign holdings of special U.S. Government securities 4/..... | --- | --- | --- | --- | -677 |

1/ Excludes military grant aid.

2/ Balance of payments transactions with the OECD countries, except Japan, as listed in table 1, above; also includes transactions with the Vatican City, Bank for International Settlements, European Coal and Steel Community, European Payments Union, European Productivity Agency and the Organization for European Economic Cooperation.

3/ Includes purchases by foreign central banks and Governments of U.S. Government nonmarketable medium term nonconvertible securities denominated in foreign currencies and dollars.

4/ U.S. Government nonmarketable medium term convertible securities denominated in foreign currencies.

Source: Bureau of Economic Statistics, Supplement to the Survey of Current Business (Review Edition), 1963. Survey of Current Business, U.S. Department of Commerce, June, September and December 1963.

rising \$7.6 billion in each year. U.S. monetary reserve assets declined by \$934 million in 1962.

This improvement in the U.S. payments balance with the OECD area reflects the advantages of continuing consultations and cooperation between the major industrialized countries on mutually advantageous financial and monetary policies, and the efforts made by the United States to minimize the disquieting effects of large balance of payments deficits on the world's trade and financial system.

Measures taken by the United States to correct its payments imbalance recognize the importance of U.S. transactions with the OECD countries as being most important to correcting the problem.

These measures range from influencing certain international transactions of the U.S. Government to actively promoting an increase in merchandise exports. Measures taken include reducing and offsetting large U.S. military expenditures abroad through procurements in this country and increasing the sale of military equipment to foreign countries; utilizing to the utmost U.S. goods and services in extending economic assistance abroad; and seeking to enact an interest equalization tax, retroactive to mid-July 1963.

Moreover, substantial assistance in reducing the payments imbalance has been obtained through measures worked out cooperatively with the more industrialized OECD countries. These include the cooperative military arrangements mentioned above; receipt of sizable debt repayments, often in advance, from OECD countries; European initiated efforts to improve the functioning of their capital markets; continuing efforts to modify restrictions on multilateral trade; mutual cooperation in extending economic assistance to developing nations; agreement among the 10 leading industrialized countries, reached in December 1961, to lend their currencies to the IMF to insure that sufficient amounts would be available should any of these countries experience payments pressures which would impair the international payments system; and U.S. intervention in the foreign exchange markets. All these factors have helped strengthen the U.S. balance of payments with the OECD countries and the rest of the world.

One factor having a pronounced favorable impact on the Nation's balance of payments with OECD countries is the receipt of scheduled and advance repayments on postwar U.S. Government loans. In the years 1953-1962, repayments by the OECD countries as a group totaled over \$4.5 billion, representing almost 65 percent of total repayments received. In 1961 and 1962, debt repayments by the OECD countries of \$915 million and \$898 million, respectively, made up over 70 percent of total repayments.

Another development further illustrates the close cooperation between the U.S. and other OECD countries. It is the sale abroad of U.S. Government nonmarketable convertible and nonconvertible certificates and bonds denominated in dollars and the currencies of the purchasing foreign central banks and governments. These securities are designed to offer foreign central banks and governments a means for holding dollar reserves in excess of their requirements or needs. Before this innovation, the major industrialized OECD nations with excess dollar



holdings, obtained through large balances of payments surpluses, had the option of holding such excessive dollar either in marketable U.S. dollar securities or converting these dollars into gold which reduced the U.S. gold stock.

Since issued in the fourth quarter of 1962, these special U.S. Government securities have been sold to Austria, Belgium, Canada, Germany, Italy, Sweden and Switzerland. At the end of September 1963, the value of these securities outstanding totaled \$963 million; \$705 million equivalent were denominated in foreign currencies.

The sale of nonmarketable medium-term nonconvertible securities in the fourth quarter of 1962 totaled \$251 million equivalent and represented about one-third of net foreign long-term investments made in this country. In the first 9 months of 1963, the value of nonconvertible securities outstanding, including Export-Import Certificates sold abroad, declined \$42 million. For the same period in 1963, however, foreign holdings of nonmarketable U.S. Government securities convertible on short notice into freely usable cash at the option of the holder rose \$677 million. The sale of this latter type of security represents a cooperative arrangement through which the United States finances part of its balance of payments deficit with foreign central banks and governments. If these convertible securities are considered to be long-term investments in the United States, the balance on recorded transactions with all areas is reduced from \$2.4 billion for the first 9 months of 1963 to \$1.7 billion. The balance on recorded transactions with OECD countries, as a group, becomes a surplus of \$103 million.

Sales of nonmarketable medium-term U.S. Government securities as denominated in the following foreign currencies -- Swiss francs, Italian lire, German marks, Austrian shillings, and Belgian francs -- have maturities of up to 2 years and are considered a second line of defense in maintaining and protecting the dollar in foreign exchange markets abroad during periods of speculative disturbances of a temporary nature. The sale of these securities, when denominated in foreign currencies, generates currency resources without adding to excessive dollar balances abroad. Thus, these sales provide financial resources to supplement present foreign exchange operations, initiated early in 1961, by the U.S. Treasury and Federal Reserve System through reciprocal currency "swaps," (i.e. agreements whereby the United States borrows foreign currency as needed for a brief time, providing in turn to the foreign supplier an equal amount of dollars upon which it may draw).

U.S. monetary authorities through such reciprocal currency agreements with selected foreign monetary authorities may borrow foreign currencies needed for brief periods and then either purchase excess dollar offerings in the exchange markets or purchase excess accruals of dollars already held by European central banks and governments. As of early March 1963, the Federal Reserve System's reciprocal credit, or "swap," network covered 10 European central banks and the Bank for International Settlements. ^{7/}

^{7/} Reports are made periodically by Charles A Coombs, "Treasury and Federal Reserve Foreign Exchange Operations," Federal Reserve Bulletins, Board of Governors of the Federal Reserve System, September 1962, Third and October 1963.



U.S. monetary reserves since 1961 have consisted partly of convertible foreign currencies, mainly as a consequence of foreign exchange operations using convertible foreign currencies obtained through reciprocal credits and, more recently, through the sale of nonmarketable U.S. Government securities denominated in foreign currencies. Holdings of convertible foreign currencies totaled \$270 million equivalent at the end of the third quarter in 1963, an increase of \$154 million equivalent since these foreign exchange operations began.

Concluding Observations

The improving U.S. balance of payments, particularly with OECD countries, reflects the continuing importance of U.S. cooperation with other OECD countries on payments problems as well as on international trade and financial problems. The exchange market crises in the early years of the decade have subsided but correcting the U.S. payments imbalance involves continuing international coordination of complex economic policies and goals among OECD countries, and between these countries and the developing nations. Within this organizational framework, cooperative efforts by the OECD countries have already eased the pressures of this Nation's international commitments which were associated a short time ago with record balance of payments deficits. Continued improvement in the U.S. balance of payments will depend upon further corrective actions by the United States and it will also depend upon more cooperation of other OECD countries.

Financial and monetary cooperation between OECD countries is important to the U.S. balance of payments; however, of immediate importance also is the accessibility of major commercial markets abroad for U.S. agricultural and nonagricultural products. One trading area of OECD has already initiated a common agricultural policy and is imposing a system of common external tariffs and levies against countries which are traditional agricultural suppliers. Subsequent to the implementation of a Common Agricultural Policy by the EEC, U.S. exports of certain agricultural products declined by 25 percent. This development opens up possibilities of further contractions of U.S. markets. Restrictive agricultural trade policies as they progress and especially if expanded by other trade areas and countries, or extended because of the EEC broadening of its membership, and associate membership, could offset much of the beneficial progress made possible by past and present cooperative OECD measures operating to alleviate the U.S. payments problem. More extensive and worldwide agricultural trade restrictions could be harmful to net U.S. trade earnings and introduce instability into the international payments system itself. The contribution of U.S. agricultural exports to improving the Nation's balance of payments particularly with the industrialized OECD countries, leads to the conclusion that U.S. agricultural trade must be given high priority among present efforts considered for improving the U.S. balance of payments and the international payments system.

Reserves of OECD countries, excluding Japan and the United States, presently total about U.S. \$33 billion compared with \$18.8 billion at the beginning of 1957. It would seem that U.S. industrial and agricultural exports could expand, particularly in most of the countries. However, instead of an expanding overseas market for U.S. agricultural products the EEC's drive for community-wide agricultural policy moving toward agricultural self-sufficiency



protected by a system of variable levies against lower-priced imports has already reduced this Nation's agricultural market and U.S. trade opportunities. Although the EEC member countries is a group possess over one-fourth of the free world's reserves, these reserves represent potential purchases of U.S. agricultural products only if they are not "bottled in" by politico-economic trade policies. Such policies, if restrictive enough to accomplish the entire goals of an EEC Common Agricultural Policy, may exercise a lasting adverse effect on the traditional patterns of world and U.S. agricultural trade. Whether this trend will harmonize with the cooperative goals of OECD remains to be seen. Because the OECD countries, and particularly the EEC countries, are the major overseas dollar customers for U.S. agricultural products, this Nation is striving continually to insure that U.S. and other third country interests will be accounted for in the developing agricultural and trade policies of these countries. The goal of expanding multilateral agricultural and nonagricultural trade, together with closer financial and monetary cooperation with other OECD countries, attests to the significance this Nation places on furthering and expanding economic growth among the world's trading nations.

